

***Technical, Managerial and Financial
Capacity Assessments***



Multi-Year Financial Planning

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Multi-Year Financial Planning

- Overview and Purpose
- Forecast Components
- Financial Planning Targets and Reserves
- Revenue Adjustments



Finance Plan Represents the Big Picture

- Focus is Long-Term (Typically 10 Years)
- Integrates Financial Information, Constraints, and Goals
 - Customer Mix
 - Budget
 - Capital Expenditures
 - External Factors
 - Policy Directions

Financial Plan Components

- Forecast Assumptions
 - Population Growth
 - Water Sales / Accounts
- Financial Plan
 - O&M
 - Debt Service
 - Capital Improvements
- Variables to “balance” financial plan
 - Increases in Rates
 - Capital Charges (e.g., Tap / Connection Fees)
 - Debt Issuance
 - Draw down reserves

Customer Growth and Usage Forecast

- Forecast Account Growth by Customer Group
 - Residential, Commercial, Industrial, etc.
- Forecast Usage per Account
 - Gallons Per Capita Per Day (GPCD)
 - Growth rates
 - Historical use per account
 - Water allotment by lot size



Prudent Financial Planning

- Revenue Must Be Sufficient To Meet:
 - O&M, Debt Service, And Capital Requirements
 - Established Cash Reserve Or Fund Balance Targets
 - Debt Service Coverage Requirements
 - Legal
 - Financial Planning

Operating Fund and Special Purpose Sub-Funds

- Total Fund
 - Typically an Enterprise Fund
 - All Revenues / Expenditures
 - Legal Fund / Fund of Consequence For
 - Bond Market
 - Regulators
 - DOLA / State Agencies

Rate and Financial Planning Criteria

- Debt Service Coverage: ratio of revenues available for current year's debt payment versus what you actually owe that year.
 - Typical legal debt service requirement of 1.20 times annual debt service for Revenue Bonds
 - Official Statement / Bond Ordinance codifies requirement
 - Financial planning debt service coverage requirement may be more restrictive than legal requirement (excludes non-operating revenues)
 - Prudent financial planning
 - Allows flexibility / cushion

Reserves

- Two Primary Objectives
 - Satisfy Bond Covenants (e.g. Debt Service Reserve)
 - Insulate Utility operations from near-term short falls in sales based revenues
- General vs. Special Purpose
 - General reserves maximize flexibility
 - May be used for more requirements
 - Special purpose may be easier to justify
 - Justification more clear for public officials and customers
 - May not be available for all uses

Common Utility Reserve Types

- Types

- Operating

- Percent of O&M Expenses
 - Percent of Operating Revenues
 - Minimum Balance
 - Emergency
 - Percent of Debt Service

- Capital

- Percent of Revenues After O&M
 - Percent of CIP
 - Minimum Balance

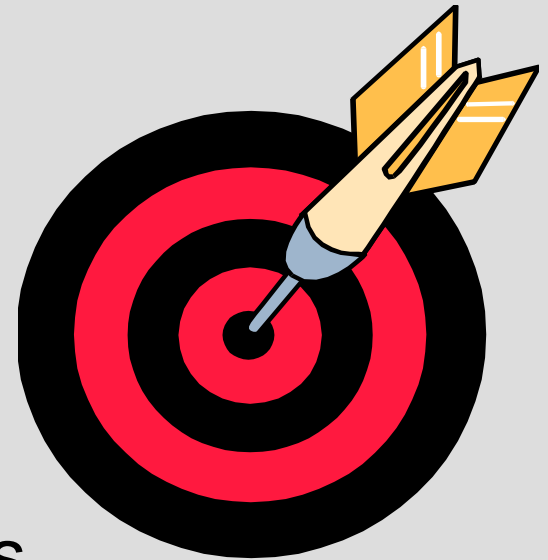
Rate and Financial Planning Criteria

Working Capital Reserve

- Cash Reserves: how much cash do you need on hand to operate on monthly basis?

Typical Target Range: 25% of Cash O&M

Varies based on monthly / seasonal variation in revenues



Capital Funding

Two Types of Capital Needs

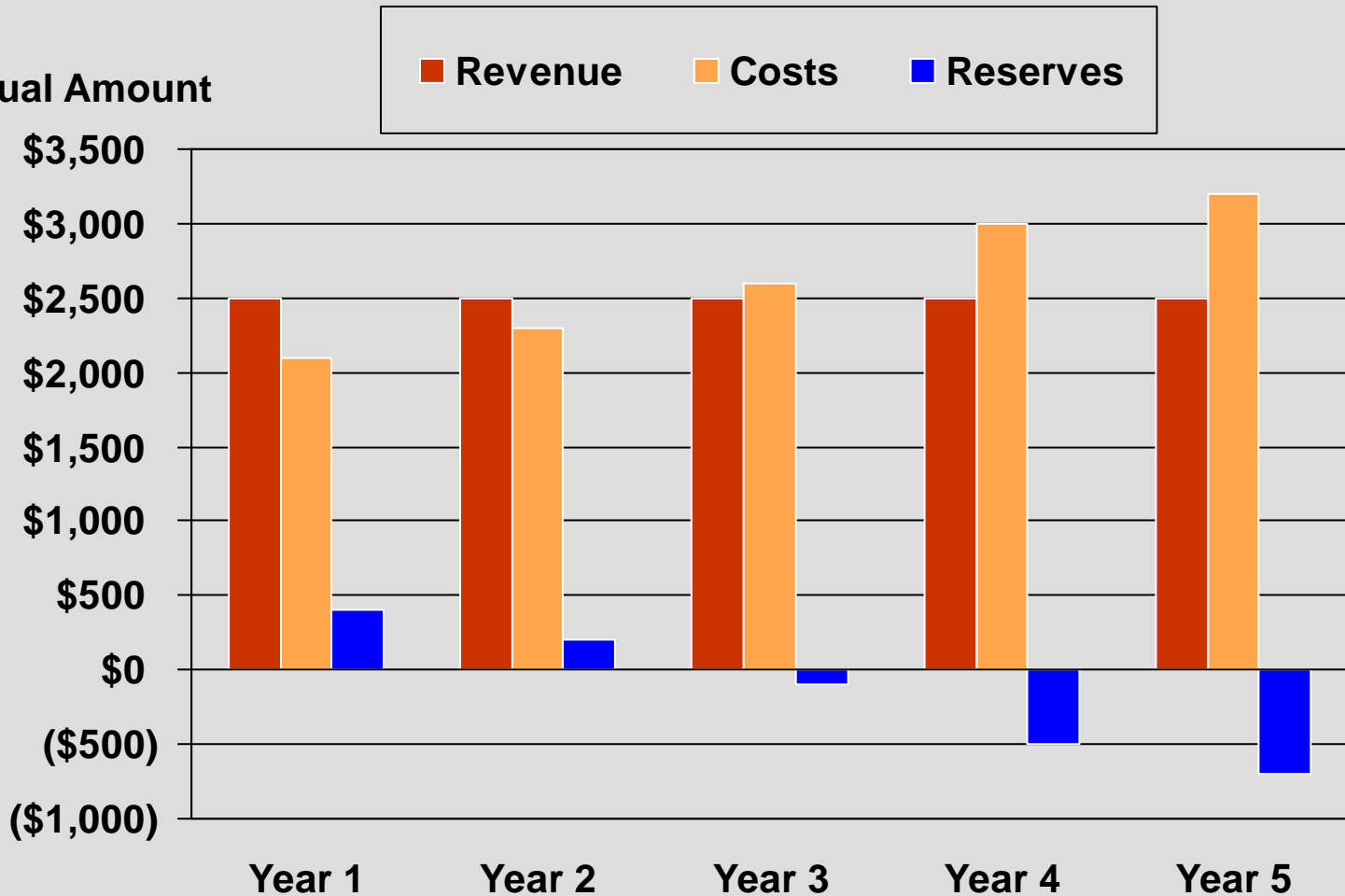
- Non-Growth Related
 - Regulatory
 - Renewal and Replacement
 - Reliability and Redundancy
 - Service Level Deficiencies
- Growth Related
 - Water Resources
 - Water Rights / Wells
 - Reservoirs
 - Raw Water Transmission and Storage
 - Water System
 - Treatment
 - Transmission
 - Distribution (may be installed and dedicated by developers)

Sources Of Capital Funding

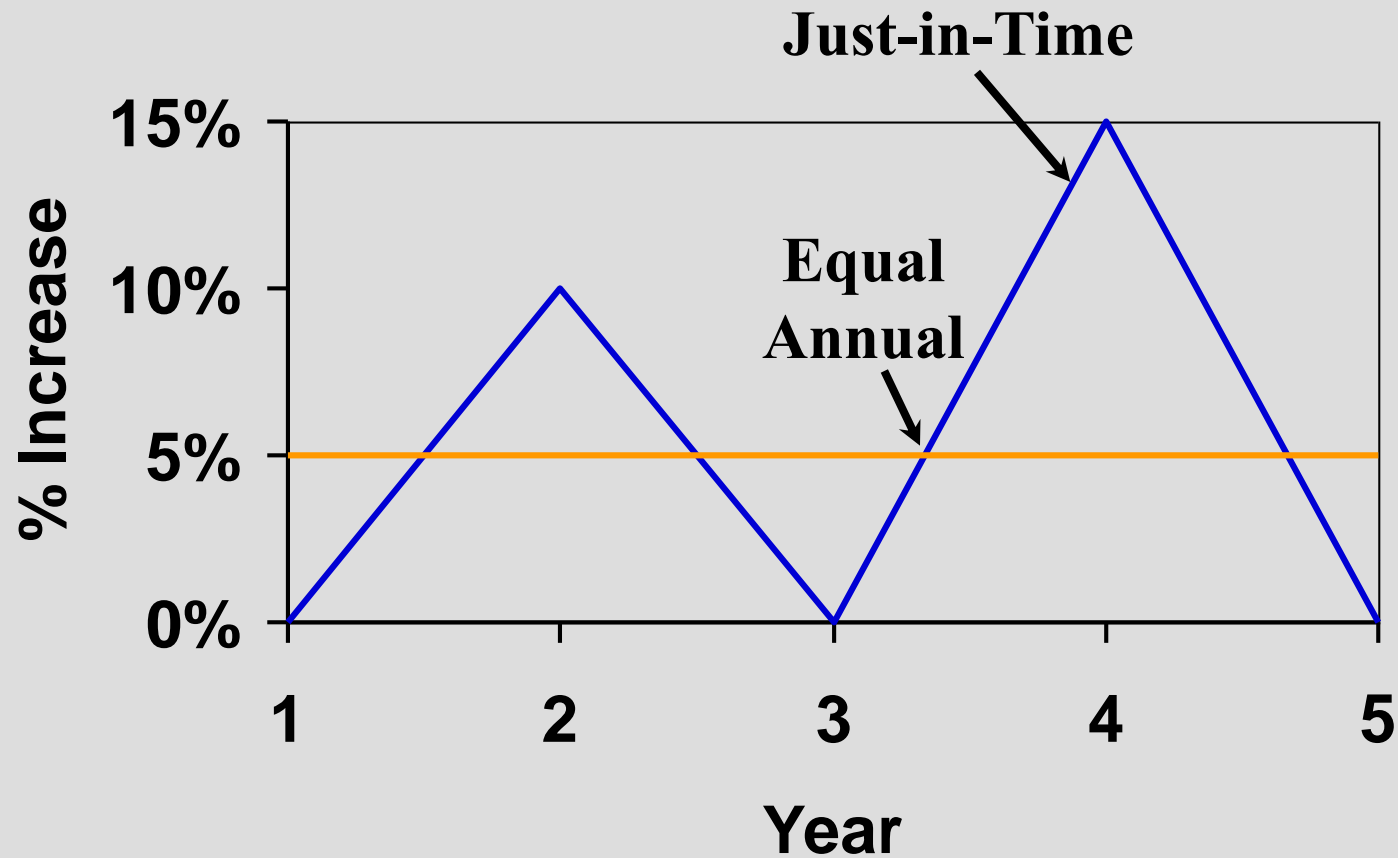
- Cash
 - User Fees
 - Tap / Connection Fees
 - City / County / District Appropriations
 - TABOR
 - Reserves
- Debt Instruments
 - Revenue and General Obligation Bonds
 - State Revolving Fund Loans
- Federal and State Grants
- Reimbursement Districts

Use Plan to Estimate Revenue Adjustments

Annual Amount



Revenue Adjustments



Questions and Discussion

